

19th February, 2003

Government Prices Oversight Commission,
GPO Box 770,
HOBART 7001

METRO FARES INVESTIGATION 2003

We raise the following comments on the issues highlighted:

CSA Agreement and Incentives

Unfortunately the basis of the CSA funding to Metro has no commercial foundation. It is based on an historical payment and subsequently adjusted to index movements and service variations. It is not varied by the level of patronage. As such it cannot react to movements in the essential element of commercial viability and performance i.e. revenue. Furthermore it is not dependent on accountability of costs.

No pricing review can be effective unless it is based on commercial operational cost modeling. For Metro funding to be soundly based, Metro services need to be structured on a commercially operational basis where its revenue is passenger generated and its service costs are accountable. The system of top-up funding for private operators is effective in both these areas. It is suggested that Metro's funding structure be remodeled and based upon the top-up system applicable to private operators. Where applicable, Government School Contracts should be specifically issued, again based on the same formula applicable to private operators.

Metro of course has the added responsibility of providing community services, where commercial viability is a secondary issue. The Government has a responsibility to be aware of the Community Service Obligations (CSO) it is providing and the cost of those services. At the moment, it does not appear to be in a position to elect which CSO it should maintain and which it could withdraw as part of an exercise of cost reduction or overall CSO cost effectiveness. It is recommended that all Metro services that carry a CSO component should be identified and quantified.

In summary, it is recommended that Metro's revenue structure be "commercialised" in line with private operators to provide more accountable and more incentive based revenue sourcing.

Return on Capital/Profit versus "break even" funding

While the basis of the CSA funding remains without commercial foundation, it is hard to recommend a commercial return on investment. The "commercialisation" of Metro's revenue structure will provide the avenue for cost accountability for each service (or at least area). Built into this cost accountability should be a capital component and a profit component. On a consolidated basis, Metro would provide a return on investment as well as adequate retained funds (through capital depreciation regardless of life of vehicle) to facilitate a vehicle replacement program.

Integration of Public Transport Systems

It is important for the State transport system that Metro integrates with other forms of public transport. However, without an accurate “service” costing methodology, the danger exists for Metro to either under-price its services (or possibly over-price). This has been clearly evident in the market place, particularly with coach charters, priced at times, well under the “going” market rate. This is neither in the interests of Metro or the industry.

Student Concession Fares

Sec 2.4 of Metro’s Preliminary Submission clearly explain the pricing anomalies that currently exist with student concession fares. In summary, current student concession fares are:

	<u>Metro</u>	<u>Private Operator</u>
Urban	96c / \$1.20	70c
Non – urban	30c (Bothwell)	30c Free (Govt. Contract)

On the basis of incentive mechanisms currently operating as part of Metro funding, a higher Metro student concession fare plays a role, however Metro would probably argue that a lower (Private Operator equivalent) fare would increase the number of passengers and thus increase their revenue. More importantly, as part of wider community equality, such inequality as illustrated above, cannot be justified. It is also difficult to comprehend why urban students (parents) effectively are required to subsidise non-urban students travel.

It is a matter of some urgency that the Department works towards the development of a more equitable policy framework for the setting of fares and provision of funding support for public transport. However, in doing so, it is critical that this framework is developed around a sound operating cost model with adequate commercial return incorporated therein.

Trust these comments are of some value.

Robin Holmes
General Manager

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